CORONATION

# GLOBAL MANAGED STRATEGY

INSTITUTIONAL STRATEGY FACT SHEET AS AT 31 MARCH 2021

CORONATION
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## LONG TERM OBJECTIVE

The Coronation Global Managed Strategy provides investors with access to the best investment ideas from around the world, with the aim of maximising long-term capital growth. It blends individual asset selection to reflect Coronation's view across asset classes, regions and currencies. The intent is to remain fully invested in foreign assets. The Strategy will hold its exposure to foreign assets in a variety of currencies, primarily the US dollar, British pound, euro and Japanese yen. The Strategy's objective is to outperform the global markets as measured by an equity-biased composite benchmark over a 5-year period.

## INVESTMENT APPROACH

Coronation is a long-term, valuation-driven investment house. Our aim is to identify mispriced assets trading at discounts to their long-term business value (fair value) through extensive proprietary research. In calculating fair values, through our fundamental research, we focus on through-the-cycle normalised earnings and/or free cash flows using a long-term time horizon. The Portfolio is constructed on a cleanslate basis based on the relative risk-adjusted upside to fair value of each underlying security. The Portfolio is constructed with no reference to a benchmark. We do not equate risk with tracking error, or divergence from a benchmark, but rather with a permanent loss of capital.

## STRATEGY RETURNS GROSS OF FEES

| Period | Strategy | Benchmark | Active Return |
|---|---|---|---|
| Since Inception (cumulative) | 159.3% | 129.2% | 30.2% |
| Since Inception p.a. | 8.7% | 7.5% | 1.2% |
| Latest 10 years p.a. | 8.3% | 7.0% | 1.3% |
| Latest 5 years p.a. | 9.3% | 9.2% | 0.1% |
| Latest 3 years p.a. | 8.9% | 8.8% | 0.1% |
| Latest 1 year | 36.3% | 32.7% | 3.6% |
| Year to date | 3.1% | 0.9% | 2.2% |
| Month | 1.9% | 0.8% | 1.1% |

## PERFORMANCE & RISK STATISTICS (Since inception)

| | Strategy | Benchmark |
|---|---|---|
| Annualised Standard Deviation | 12.6% | 9.4% |
| Maximum Drawdown | (16.1)% | (13.0)% |

## ASSET ALLOCATION

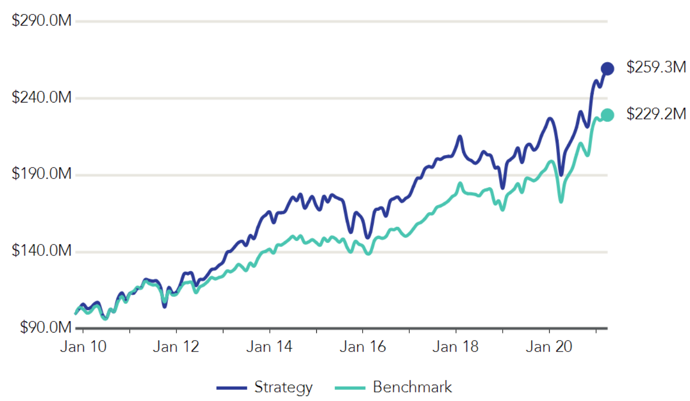
| Asset Type | % Strategy |
|---|---|
| Equities | 67.0% |
| Bonds | 12.7% |
| Cash | 11.8% |
| Commodities | 5.7% |
| Property | 2.8% |

## GENERAL INFORMATION

| | |
|---|---|
| Inception Date | 01 November 2009 |
| Strategy Size * | $1.02 billion |
| Strategy Status | Open |
| Mandate Benchmark | 60% MSCI Daily TR Net All Country World USD (NDUEACWF Index ) and 40% Bloomberg Barclays Global Aggregate Bond TR Unhedged USD (LEGATRUU Index) |
| Redemption Terms | An anti-dilution levy will be charged |
| Base Currency | USD |

*Strategy assets under management as at the most recent quarter end.

## GROWTH OF US$100M INVESTMENT




Benchmark: 60% MSCI Daily TR Net All Country World USD (NDUEACWF Index ) and 40% Bloomberg Barclays Global Aggregate Bond TR Unhedged USD (LEGATRUU Index)

## TOP 10 HOLDINGS

| Holding | % Strategy |
|---|---|
| ISHARES PHYSICAL GOLD ETC ETP USD (IRL) | 3.9% |
| US T-BILL 1.125% 300621 (USA) | 3.8% |
| CORO GBL STRATEGIC INCOME-Z (IRL) | 3.3% |
| US T-BILL 0.000% 180521 (USA) | 2.8% |
| ALPHABET INC-CL A (USA) | 2.7% |
| CHARTER COMMUNICATIONS INC-A (USA) | 2.6% |
| FACEBOOK INC-A (USA) | 2.5% |
| NASPERS LIMITED (ZAF) | 2.4% |
| VINCI SA (FRA) | 2.2% |
| PHILIP MORRIS INTERNATIONAL INC (USA) | 2.1% |

## GEOGRAPHIC EXPOSURE

| Region | % Strategy |
|---|---|
| North America | 35.7% |
| Europe | 28.6% |
| CEEMEA | 18.8% |
| Asia | 8.1% |
| Japan | 1.7% |
| LATAM | 0.7% |
| Other | 6.4% |

## CURRENCY EXPOSURE

| Currency | % Strategy |
|---|---|
| USD | 67.2% |
| EUR | 15.3% |
| GBP | 8.8% |
| ZAR | 3.0% |
| JPY | 1.8% |
| CHF | 1.8% |
| CNY | (1.8)% |
| Other | 3.9% |

## PORTFOLIO MANAGERS

**Louis Stassen** - BSc, BCom (Hons), CFA

Louis is a founding member and former chief investment officer of Coronation, with 31 years' investment experience. He is a key decision maker within the global investment team and co-manager across all Global Multi-Asset Class strategies.

**Neil Padoa** - BEconSc, FFA

Neil is a portfolio manager and head of Global Developed Markets. He joined Coronation in May 2012 and has 13 years' investment experience.

**Humaira Surve** - BScEng, MBA, CFA

Humaira is a portfolio manager within the Global Developed Markets team, responsible for co-managing the Coronation Global Equity Select, Active Global Equity and Global Managed strategies. She joined Coronation in 2012 as a global developed markets analyst. Humaira has nine years investment experience.

## FUND MANAGERS

Please contact Coronation for further information

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## DISCLAIMER

## REVIEW FOR THE QUARTER

Equity markets posted solid gains in the first quarter, returning 4.6%, and now sit well above pre-Covid-19 levels. While we don't spend any time trying to predict short-term market moves, recent volatility (both up and down) and violent "factor rotations" have whipsawed many investors and provided a real-life stress test of equity portfolios. The bond market fared less well, declining approximately 4.5% in the quarter, as interest rates increased from very low levels.

Against this backdrop, the Strategy performed well, returning 3.1% for the quarter compared to 0.9% for the benchmark. Over one year, the Strategy is 3.6% ahead, over five years it has returned 9.2% p.a. (roughly in line) and over 10 years 8.3% p.a. (1.3% ahead).

For the quarter, the primary contributors to return were:

- Equity holdings, which returned 5.9%
- Fixed interest, which returned 2% (thanks to our conservative positioning and compared to the benchmark's -4.5% loss)
- Commodities, which returned 11%
- Inflation protection, with the Strategy's inflation breakeven positions appreciating meaningfully as the market re-priced inflation risk. Ten-year breakeven increased from 1.5% to 2.2%.

The Strategy has held a position in Porsche for many years, during which time it has performed broadly in line with the market. In January, we re-visited the investment case for Porsche, whose primary asset is a 53% holding in VW common stock. The key conclusions were:

a) VW is not as bad a business as the market would have you think. It was trading on seven times earnings, which is one-third of the market multiple, despite growing its market cap four times in 20 years, earnings by 8% per annum for over ten years, and delivering an expected Return on Capital Employed of 10-13%.
b) Porsche did not deserve to be trading at a further 35% discount to the value of its stake in VW.
c) Earnings are reasonable quality with the business converting 70-90% of earnings into free cash flow (FCF), implying that Porsche was trading north of a 20% FCF yield on a look-through basis.
d) The transition to EVs (electric vehicles) is more of an opportunity than a threat to VW. (It ended 2020 with a Battery Electric Vehicle market share of 11% already, which is rapidly growing and on track to exceed its 13-14% share of traditional Internal Combustion Engine vehicles.)
e) Any form of sum of the parts analysis, which more accurately valued VW's luxury brands (which include Lamborghini, Bugatti, Bentley and Porsche itself), showed that VW (and therefore Porsche) were massively undervalued.
f) The balance sheet is again solid with year-end net cash coming in at €28 billion.

Our financial forecasts implied the stock was worth double where it was trading and could generate an Internal Rate of Return above 20% p.a. Very unusually, we didn't have long to wait for some of this discount to narrow, as Porsche appreciated by c.60% over the rest of the quarter. It was a top contributor to Strategy returns.

We have written about our cable holdings, Charter Communications and Altice USA, in previous commentaries. Both were detractors in the first quarter. However, both are top contributors over more meaningful time periods (3-5 years). This is often how it goes for long-term investors: we believe it is highly unusual for stocks to go up in a straight line, periods of underperformance are almost inevitable in the hunt for long-term outperformance, and an investment thesis is likely to be tested many times over a multi-year holding period.

Cable's primary product, the provision of high-speed broadband internet in the United States, took centre stage in 2020 as large parts of the population were forced to work, learn and entertain themselves at home and online virtually overnight. Both companies performed strongly, with Charter growing its internet subscriber base by 9% and Altice by 4% on a year over year basis.

Both stocks have since taken a breather due to several factors, none of which we are particularly concerned about. Firstly, we acknowledge that there was likely some pull forward of subscriber growth into 2020 and that these results are unlikely to be repeated in 2021. Secondly, there has been increased noise from mobile operators launching 5G home broadband plans. And lastly, the Biden administration has made announcements relevant to cable.

Addressing the first point, we have strong conviction that demand for high-speed internet will continue to increase as data consumption grows rapidly each year. This structural tailwind is supplemented in the nearer term by various stimulus measures that will directly assist lower-income households with their monthly broadband bills. And cable continues to be the internet provider of choice. Charter's average broadband subscriber now consumes 700GB of data per month (on a per home basis) and this continues to grow. Capacity-constrained mobile networks, where the average unlimited user consumes 10-15GB per month, are unable to compete in our view. Lastly, Biden's infrastructure plan should provide growth opportunities for cable in previously unserved rural areas, while we view the risk of price regulation as low. Higher corporate US tax rates are factored into our forecasts.

We find the valuations of both our cable holdings extremely attractive in both relative and absolute terms and we continue to expect strong growth in FCF over the coming years based on healthy revenue growth, steadily expanding margins and capex declining to normalised levels. Both also have excellent, shareholder-friendly management teams as evidenced by Altice repurchasing a massive 25% of shares outstanding over the course of 2020.

At quarter-end the Strategy was positioned with just under 72% in growth, or risk, assets comprised of the following:

- 56% effective equity
- 4.5% in property
- 4.5% in infrastructure
- 2.5% in convertible instruments
- 4% in high yield credit

The remaining 28% of the Strategy is invested in either more stable assets, or diversifying assets, which we think have lower correlation to equities:

- 7% in commodities
- 2% in inflation-linked bonds
- 5% in hedged equity
- 14% in investment grade fixed income (with 9% in short dated Treasury bills, and 3% in corporate credit)

As highlighted in prior commentaries, we continue to believe that the fundamental diversification evident in this portfolio construction, with an intentional tilt towards inflation protection at the expense of nominal government bonds, is both more appropriate and more robust than that of the Strategy's benchmark, which includes a 40% weighting to global government bonds. As a reminder, the bond index, as a whole, offers a low nominal expected return and a negative real return. Setting this meagre return against the risks (including huge budget deficits and elevated debt levels), which we believe are significant, suggests to us that this part of the Strategy's benchmark offers a poor risk-reward trade-off and that investors will do well to avoid these instruments entirely. In our view, they will be better served over the long term in diversifying assets, as outlined above.

Thank you for your continued support and interest in the Strategy.